

TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: June 30, 1999 Actuarial Valuation
Cash Balance Benefit Program

ITEM NUMBER: 9b

ATTACHMENT(S): 1

ACTION: X

MEETING DATE: March 9, 2000

INFORMATION: ____

PRESENTER: Mr. Derman

SUMMARY

Section 26211 of the Education Code requires an annual actuarial valuation of the benefits provided under the Cash Balance (CB) Benefit Program of the State Teachers' Retirement Plan. The Consulting Actuary performs this valuation.

An actuarial valuation identifies the extent to which the current and future assets of the fund are sufficient to pay the benefits promised by law. In addition to the Normal Cost Rate, which represents the cost of additional liabilities resulting from future service, the actuarial valuation identifies the Actuarial Obligation for benefits to current members and benefit recipients, which represents the cost of liabilities associated with service already performed. The Actuarial Obligation for benefits is then contrasted with the actuarial value of current assets to assess the adequacy of past funding. If the actuarial value of current assets is less than the Actuarial Obligation for accrued benefits, an Unfunded Actuarial Obligation exists. An Unfunded Actuarial Obligation can arise in the CB Benefit Program from investment returns that are less than the minimum interest rate paid to program participants. The valuation also indicates the amounts available to fund the Gain and Loss Reserve and any additional earnings credit to be declared by the Board.

The Consulting Actuary, Mark O. Johnson, FSA, of Milliman & Robertson, Inc. will present the Actuarial Valuation Report as of June 30, 1999 to the Board.

RECOMMENDATION

The staff recommends the Board adopt the June 30, 1999 Actuarial Valuation Report.

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD

SUBJECT: Cash Balance Benefit Program Actuarial Valuation Report

RESOLUTION NO. _____

WHEREAS, Section 26211 of the Education Code requires an annual actuarial valuation of the System's assets and liabilities with respect to the Cash Balance Benefit Program; and

WHEREAS, Milliman & Robertson, Inc. has performed the necessary actuarial calculations using the June 30, 1999 data provided by the System; and


WHEREAS, the Board has reviewed the June 30, 1999 Actuarial Valuation Report presented by Milliman & Robertson, Inc.; therefore, be it

RESOLVED that the Board adopt the accompanying Actuarial Valuation Report from Milliman & Robertson, Inc.

Adopted by:
Teachers' Retirement Board

on March 9, 2000


James D. Mosman
Chief Executive Officer



California State Teachers' Retirement System

1999 Actuarial Valuation Cash Balance Benefit Program


March 9, 2000
Milliman & Robertson, Inc.



Membership

Valuation Date	Number of Participants	Account Balances
June 30, 1997	495	\$ 164,078
June 30, 1998	3,505	1,727,705
June 30, 1999	6,412	5,000,613

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CBB Program Assets

(\$millions)	1999	1998	1997
Beginning Balance	\$ 0.790	\$(0.393)	\$(0.133)
Contributions	3.082	1.544	0.148
Earnings	0.380	0.105	0.020
Loan write-off	1.417	0.000	0.000
Benefits Paid	(0.015)	0.000	0.000
Expenses	<u>(0.430)</u>	<u>(0.466)</u>	<u>(0.428)</u>
Ending Balance	\$ 5.224	\$ 0.790	\$(0.393)

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CB Plan Expenses

- **\$1 Million Loan**
 - From DB Plan
 - For Start-up Administrative Expenses
- **Financial Merger of CB Plan and DB Plan**
 - Loan discharged
 - \$1,417 million write-off
 - Includes accumulated interest
 - Expenses after January 1, 1999 are allocated based on invested assets

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CB Plan Expenses

- **CB Plan Expenses Prior to January 1, 1999**
 - Charged for direct expenses
 - Charged for overhead from July 1, 1998, through December 31, 1998
- **Loan Not Sufficient**
 - Administrative expenses through the end of 1998 exceeded \$1 million
 - Primary reason for actuarial loss in 1998-99 plan year

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Administrative Expenses

		(\$millions)
Period Ended		
June 30, 1996	\$	0.128
June 30, 1997		0.393
June 30, 1998		0.397
December 31, 1998	0.387	includes overhead
Total Expenses	\$	1.305
Loan for Expenses	1.000	
Actuarial Loss	\$	0.305

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Actuarial Balance Sheet

(\$millions)	1999	1998
Account Balances	\$ 5.001	\$ 1.728
Actuarial Value of Assets	\$ 5.224	\$ 0.790
Unfunded Actuarial		
Obligation (Surplus)	<u>(0.223)</u>	<u>0.938</u>
Total Resources	\$ 5.001	\$ 1.728

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Reconciliation of Surplus

(\$millions)		
June 30, 1998 Unfunded Obligation	\$ 0.938	
Adjustment for Plan Merger	(1.293)	
Additional Earnings Credit	<u>0.009</u>	
Net Actuarial (Surplus)	\$ (0.346)	
Investment Earnings	\$ 0.379	
Minimum Interest Credit	<u>(0.197)</u>	
Investment Gain	\$ 0.182	(0.182)
Expense Loss		<u>0.305</u>
June 30, 1999 Actuarial (Surplus)	\$ (0.223)	

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Gain and Loss Reserve

(\$millions)	1999	1998
Actuarial Surplus	\$ 0.223	\$ 0.355
Gain and Loss Reserve		
Beginning of Year	0.346	(0.557)
Adjustment for Merger	0.000	1.293
Additional Earnings Credit	*	(0.009)
Allocated to Funding	<u>*</u>	<u>(0.381)</u>
End of Year	\$ 0.346	\$ 0.346
Unallocated Gains (Losses)	\$ (0.123)	\$ 0.000

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Board Decisions

- **CB Plan Expenses Prior to January 1, 1999**
 - Decision on overhead expenses of \$242,000
 - Board could decide not to charge to CB Plan
- **Additional Earnings Credit**
 - After Board decision on overhead expenses
 - Decision Matrix in April
 - Gain and Loss Reserve
 - Review Board's Goal
 - Updated data on current year contributions
 - Additional Earnings Credit
